



# The Sacramento Bee

**Consumer prices take off: The 4.1% increase in 2007 was the highest in 17 years, while real weekly earnings failed to keep up.**

By Kevin G. Hall  
January 17, 2008

WASHINGTON – New data from the Labor Department confirm what most middle-class Americans already know: Inflation is squeezing them.

Consumer prices rose in 2007 at the fastest pace in 17 years, as motorists paid a lot more for gasoline and grocery shoppers paid higher food bills. However, falling prices for clothing and new cars offset some of those gains. That means that while overall prices rose by 4.1 percent last year, the highest rate since 1990, the prices of many basic essentials – food, gasoline and health insurance – climbed far more steeply, explaining why so many Americans are telling pollsters that the economy is their chief concern.

At the same time, real weekly earnings failed to keep pace, rising 0.9 percent for the year. In the simplest of terms, every dollar earned bought less. This partly explains why the economy so frustrates Americans.

"From a standpoint of the consumer, they react to (inflation) like a tax increase. They feel less wealthy, they feel pinched, and they are looking for institutions or people to blame," said William Beach, an economist and the director of data analysis for the Heritage Foundation, a conservative policy-research organization.

The U.S. Consumer Price Index collects price data on just about every imaginable product or service in 87 urban areas around the country. These data are culled, products are assigned numerical weight based on their relative importance to consumer spending, then an average change of prices is determined.

The Labor Department issues monthly reports on consumer inflation based on this data, detailing broad categories of consumer expenditures such as transportation, energy and medical care. But these categories tell only a partial story of the middle-class squeeze.

Digging deeper into the data reveals, for example, that the price of bread rose 7.4 percent last year, almost twice the rate of inflation. The price of eggs rose 29.2 percent in 2007, while the price of fresh whole milk was up 13.1 percent. Since July, when milk prices first soared, the price of fresh whole milk has risen by almost 23 percent.

"The kinds of things you purchase every day are going up (in price)," said Gus Faucher, the director of macroeconomics at forecaster Moody's Economy.com in West Chester, Pa. "People who are at the lower end of the income scale are going to feel that more."

It's not just rising food prices that are pinching the budget of working Americans.

The price of health insurance, another major political campaign theme, rose by 10.1 percent last year. Medical inflation also continued to outpace the broader consumer inflation rate. The price of medical care nationally rose by 5.8 percent in 2007 and the price of medical care services rose by 5.3 percent.

But consumers perhaps most felt the energy-price squeeze. Gasoline prices rose 8.2 percent on average last year, the slowest rate of growth since 2002. But pump prices began climbing anew in October and for the last quarter of 2007, average prices rose by just more than 30 percent.

Similarly, the price of fuel oil used for winter home heating rose 7.4 percent for all of 2007, but in the last three months of the year rose by more than 27 percent. Electricity prices also rose last year but by only 3.9 percent, slightly under the broader consumer inflation rate.

For baby boomers sending their children to college, tuition and expenses rose by 6.2 percent last year, the slowest rate of growth since 2001 but still rising faster than the inflation rate. The cost of attending a technical or trade school rose by 4 percent.

For working parents with young children, the cost of child care and nursery school rose 4.3 percent, slightly above the inflation rate. The cost of feeding and caring for Fido or other family pets rose 3 percent.

The inflation news would be worse if not for China. Prices for the types of consumer goods that are coming almost exclusively from China were down last year as in earlier years, serving to hold back broader U.S. consumer inflation. Apparel prices fell 0.4 percent in 2007, and footwear prices fell 0.9 percent.

The price of toys, which now come mostly from China, fell 4.7 percent last year. That has fallen every year since 1997.